Investment Managers

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Home advantage for UK investors?

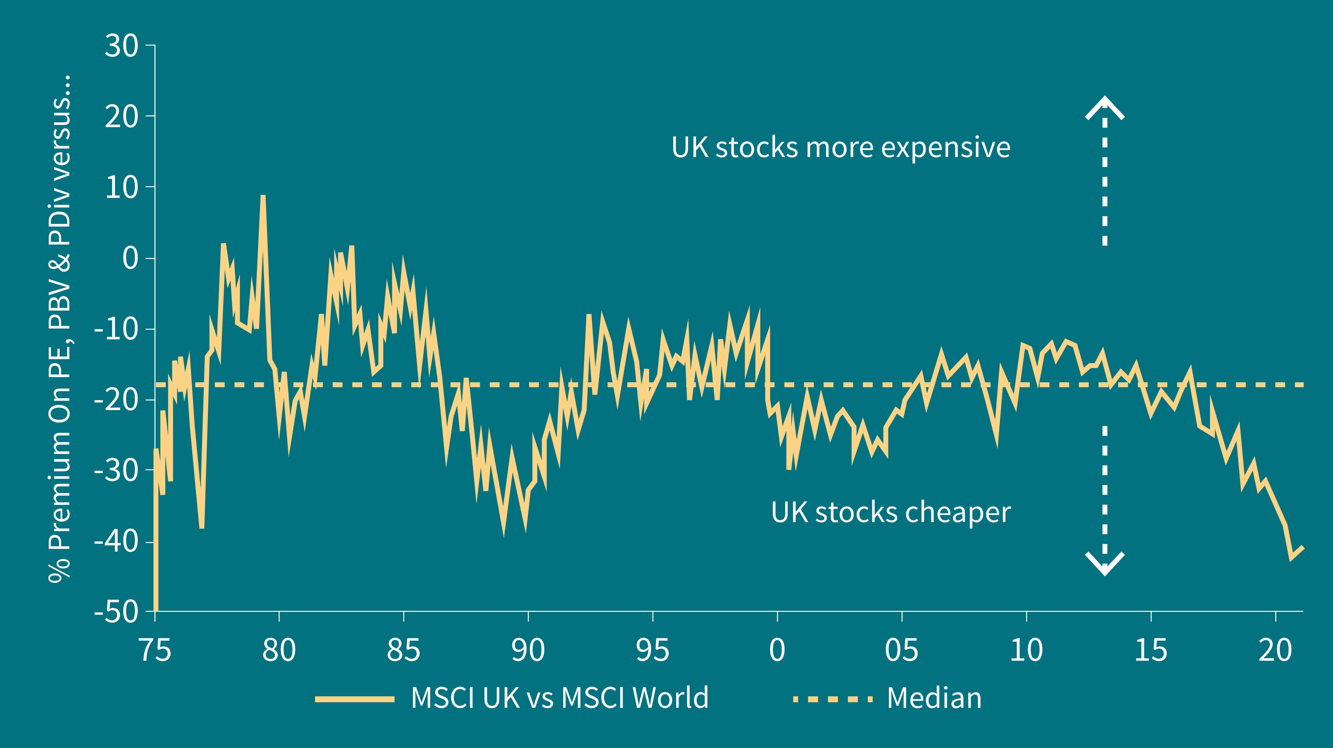
After becoming used to looking abroad for returns, 2021 marks the year when home advantage returns for UK investors. A swift vaccine rollout should allow the economy to pick up momentum, with our investment team already seeing positive trading updates from companies across our portfolios.

A recovering economy and attractively priced market

The UK is set to experience its fastest growth for several decades in 2021, with our own economics team **forecasting growth of 3.5% in 2021, followed by 7.5% in 2022**. Importantly, our assumptions are based on a more cautious approach to the vaccine rollout than the UK government is currently planning.

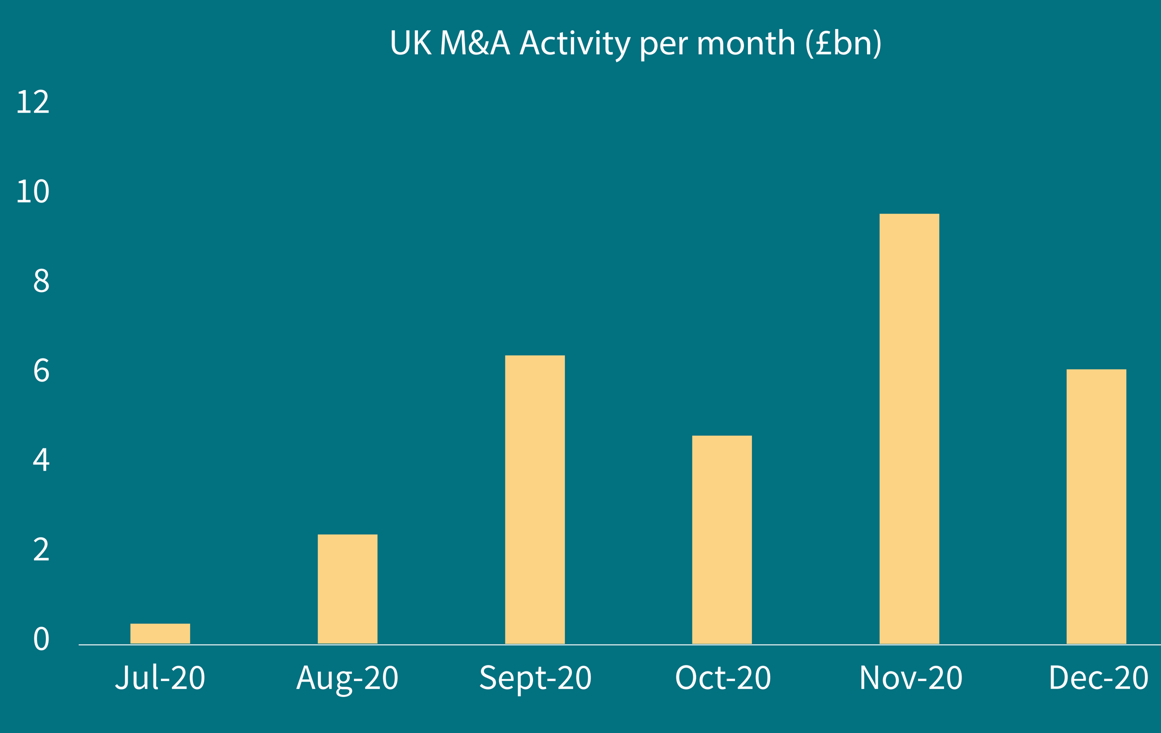
UK consumers accumulated **more than £100bn in excess savings over 2020** while also repaying the equivalent of all credit card debt taken out in 2019. When the economy reopens, this should provide ample fuel to help support the recovery.

At the same time, UK stocks are trading at one of the largest discounts to their global counterparts since the creation of the FTSE 100.[1]



Those in the know are buying

Perhaps the clearest sign that UK equities are worth considering, however, comes from professional investors. Merger and acquisition activity is a hot topic in the UK at the moment, with activity rising strongly.



Emerging stronger from the pandemic

Active investors also have the opportunity to invest in businesses which will emerge strengthened by the pandemic. A significant number of businesses entered administration in 2020, especially in hard-hit sectors such as retail.

54
retail businesses failed in 2020 with
5,214
stores affected[2]

For some businesses, this will provide opportunities to emerge stronger from the pandemic. The furniture retailer DFS, for example, expects to gain up to five percentage points of market share from its distressed competitors.[3]

Not just a value market...

The UK's exposure to cheap companies in areas like commodities and financials has held back the market in recent years. This might be less of a disadvantage going forward if we see a strong global recovery, providing another reason for investors to consider UK shares.

It's worth remembering that the UK market is not just about value names, however. UK equities also offer exposure to a number of positive themes, including:

The use of data to provide information services
Experian holds data on
1 in 6
of the global population[4]

Technological disruption
The internet has led to new types of media businesses, such as Future plc, which reaches
1 in 3
of all people online in the UK and US.[5]

Increasing capital efficiency
Rio Tinto was the seventh largest listed dividend paying company in the world in 2019, paying out a total of
$7.2bn.[6]

Can you do better than the High Street saving rate?

At the same time, equity income remains one of the few attractive sources of yield today. At the beginning of January, the highest interest rate on an instant access account was 1.1%, available only to customers of the building society in question. Interest rates more broadly are at historic lows, as shown below.

Bank of England base rate:	Ten year UK Government bond yield:	Highest available instant access savings rate:
0.1%[7]	0.2%[7]	1.1%[7]

When you take inflation into account, investors in UK government bonds actually face a negative return. According to the ONS, this has only happened once since 1949, highlighting the extraordinary dilemma savers find themselves in.

While the UK, Europe and US continue to grapple with the pandemic, we believe there is a strong case for UK equities. The shape of the economic recovery will remain dependant on the speed of the vaccine rollout, but there is plenty of pent-up demand to rekindle the UK's animal spirits.

At the same time, the UK is one of the most attractively valued areas of all the developed markets, featuring a wide range of businesses of good quality. For active investors, the UK is an opportunity that should be seriously considered in 2021.

Sources:
1 January 2021, MSCI, IBES, Morgan Stanley Research Note: average relative valuations use 12M forward data where available (forward P/E data starts in 1987) and trailing data where forward P/E not available
2 Centre for Retail Research, January 2021
3 DFS, September 2020.
4 Experian, November 2020
5 Future, November 2020.
6 Janus Henderson, May 2020.
7 Bank of England, January 2021. UK bond yields as of 31/12/2020. MoneySuperMarket comparison done on 04/01/2021, assuming a minimum £1,000 deposit with a variable interest rate

For more information on UK equities, visit https://adviser.axa-im.co.uk/uk-equities.

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